

**PUBLIC DISCLOSURE**

APRIL 4, 2005

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**WINCHESTER SAVINGS BANK**

**661 MAIN STREET  
WINCHESTER, MA 01890**

**DIVISION OF BANKS  
ONE SOUTH STATION  
BOSTON, MA 02110**

<p><b>NOTE:</b> This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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## GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires the Massachusetts Division of Banks ("Division") to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the CRA performance of **Winchester Savings Bank (or the "Bank")** prepared by the Division, the institution's supervisory agency, as of **April 4, 2005**. The Division evaluates performance in the assessment area(s), as they are defined by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The Division rates the CRA performance of an institution consistent with the provisions set forth in 209 CMR 46.00.

### **INSTITUTION'S CRA RATING: This institution is rated "Satisfactory"**

Winchester Savings Bank was evaluated according to the CRA Large Institution Examination Procedures, involving three tests: the Lending Test, the Investment Test and the Service Test.

Taking into consideration the Bank's size and lending capacity, as well as the significant level of competition, Winchester Savings Bank's lending within the assessment area is considered adequate.

The geographic distribution of small business loans is also considered adequate. Winchester Savings Bank was similar to the percentages of the other reporting financial institutions within its assessment area (aggregate) within the moderate and middle-income tracts.

A review of the Bank's residential loans revealed an adequate geographic performance. The Bank did a good job of originating loans within the moderate-income tracts, generally exceeding the percentage of owner-occupied units and multifamily dwellings in the assessment area and compared similarly to the aggregate.

The level of community development loans is considered adequate.

Winchester Savings Bank makes a reasonable effort to offer the use of innovative and flexible lending practices in serving the credit needs of the assessment area.

Based on the information above, Winchester Savings Bank receives a "Satisfactory" rating in the Lending Test portion of the examination.

Winchester Savings Bank's performance relating to qualified investments has remained somewhat limited since the previous examination. The Bank's level of performance was marginally adequate as of the previous evaluation and has continued downward.

## GENERAL INFORMATION (CONTINUED)

Although CRA contributions have increased, the Bank's investment performance is still considered to be rated "Satisfactory".

Winchester Savings Bank's systems for delivering retail-banking services are readily accessible to geographies and individuals of different income levels in its assessment area, including those of low and moderate-income. The Bank's directors, officers and employees have provided an adequate level of service activities primarily for community development purposes and related to the provision of financial services. Therefore, the Bank's service activities receive a rating of "Satisfactory".

The following table shows the performance ratings of **Winchester Savings Bank, 661 Main Street, Winchester, MA**, with respect to the lending, investment, and service tests.

<b>PERFORMANCE TESTS</b> <b>Winchester Savings Bank</b>			
<b>Performance Levels</b>	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory			
Satisfactory	<b>X</b>	<b>X</b>	<b>X</b>
Needs to Improve			
Substantial Non-Compliance			

\*Note: The Lending Test is weighed more heavily than the Service and Investment Tests when arriving at an overall rating.

## DESCRIPTION OF INSTITUTION

Winchester Savings Bank is a mutually owned financial institution with five locations. The main office, one full-service branch, and one limited-service branch (located at Winchester High School) are located in the town of Winchester, MA. Two additional full-service branches are located in Woburn, MA. Due to the Metropolitan Statistical Area ("MSA") designation changes between 2003 and 2004, the Hammond Square branch in Woburn is located in a moderate-income census tract (previously located in a middle-income census tract); whereas the Horn Pond branch is situated in a middle-income census tract (previously situated within an upper-income census tract). The remainder of the branches are located within upper-income census tracts. In total, the Bank operates six automated teller machines ("ATM"s). Each full-service branch location operates an ATM, and an additional ATM is located at Winchester Hospital.

The loan type with the greatest volume extended by Winchester Savings Bank is the residential mortgage, which constitutes 81.4 percent of the institution's loan portfolio. The second most significant component of the loan portfolio is commercial real estate loans, representing 14.5 percent of the total portfolio. The institution's balance sheet is primarily weighted within the loan portfolio, as total loans represent 56.4 percent of total assets; securities represent 36.6 percent of total assets. Refer to the following table for more information.

Loan Portfolio Distribution as of December 31, 2004		
Loan Type	Dollar Volume (000)	Percentage of Total Loans
Construction and Land Development	4,567	1.7%
Revolving Open-end 1-4 Family Residential	28,919	11.0%
Closed-end 1-4 Family Residential First Lien	161,094	61.6%
Closed-end 1-4 Family Residential Junior Lien	164	0.1%
Multi-family Residential	22,691	8.7%
Commercial Real Estate	37,939	14.5%
Total Real Estate Secured	255,374	97.6%
Commercial and Industrial Loans	4,220	1.6%
Other Consumer Revolving Loans	171	0.1%
Closed-end Consumer Loans	1,834	0.7%
<b>Total Loans</b>	<b>261,599</b>	<b>100.0%</b>

Source: December 31, 2004 Call Report

There are no legal or financial impediments that prevent Winchester Savings Bank from meeting the credit needs of its assessment area. Earnings, capital, and liquidity have been sufficient to support the institution's lending activity.

Winchester Savings Bank's total assets stood at \$463,649,000 as of December 31, 2004. As of the same date, the institution reported total loans of \$261,599,000, total deposits of \$391,629,000, and equity capital of \$43,451,000.

## **DESCRIPTION OF INSTITUTION (CONTINUED)**

The average loan-to-deposit ("LTD") ratio since the previous Federal Deposit Insurance Corporation ("FDIC") CRA examination is 69.1 percent. The current LTD ratio, as of December 31, 2004, is 66.1 percent. The range of quarterly loan-to-deposit ratios was a low of 65.2 percent as of September 30, 2003, to a high of 79.5 percent as of June 30, 2002. The Bank's current loan-to-asset ratio is 55.9 percent, representing a 10 percent decrease in the ratio since the previous examination.

The business environment in which the Bank operates remains highly competitive. Aggregate lending data from 2003 shows that a total of 440 financial institutions originated mortgage loans within the Bank's assessment area. Winchester Savings Bank ranked 32nd in respect to market share, with an overall market share of .71 percent. The institutions that hold the top-ten market share positions constitute 45.6 percent of total market share in the institution's designated assessment area. Furthermore, 18 out of the 31 (58.1 percent) institutions that possess a higher market share than Winchester Savings Bank are large mortgage companies such as Countrywide Home Loans, GMAC Mortgage Corporation, and Wells Fargo Home Mortgage.

Bank management considers Winchester Co-operative Bank, Bank of America, and Sovereign Bank to be its primary competition. These institutions rank 22<sup>nd</sup>, 6<sup>th</sup>, and 31<sup>st</sup>, in terms of overall market share, respectively. Large mortgage companies are also recognized as possessing a large market share within the Bank's assessment area.

Winchester Savings Bank's most recent CRA evaluation conducted by the FDIC on April 30, 2002 resulted in an overall rating of "Satisfactory." The most recent CRA examination conducted by the Division on November 29, 2000 also resulted in an overall rating of "Satisfactory."

## **DESCRIPTION OF ASSESSMENT AREA**

### **Overview**

The Winchester Savings Bank assessment area includes all census tracts that comprise the eight cities and towns of: Arlington, Lexington, Medford, Melrose, Reading, Stoneham, Winchester, and Woburn. Combined, these eight cities and towns account for a total area of 71.5 square miles of Middlesex County's 848 square miles. Total population of the assessment area is 259,638, representing 17.7 percent of the Middlesex County population and 4.1 percent of total Massachusetts state population (2000 U.S. Census Data).

## DESCRIPTION OF ASSESSMENT AREA (CONTINUED)

### Assessment Area Demographics

The Office of Management and Budget changed MSA definitions in the year 2004. The aggregate income information at the MSA level against which each census tract is compared has changed, thus altering the classifications of census tracts by income levels. Most significantly, the Bank's assessment area gained four moderate-income census tracts due to the MSA changes. As of 2003, the assessment area was comprised of 3 moderate-income tracts, 30 middle-income tracts, and 18 upper-income census tracts. The 2004 composition of census tracts is as follows: no low-income census tracts, 7 moderate-income tracts, 30 middle-income tracts, and 14 upper-income census tracts. Low-income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA. Moderate-income is defined as income between 50 percent and 79 percent of the median family income level for the MSA. Middle-income is defined as income between 80 percent and 119 percent of the median income. Upper-income is defined as income equal to or greater than 120 percent of the median income.

The following tables depict the demographic composition of the institution's assessment area for both 2003 and 2004.

#### 2003 Assessment Area Demographics

Census Tract Income Level	Census Tracts in Assessment Area		Total Population		Total Households		Total Families		Total Housing Units	
	#	%	#	%	#	%	#	%	#	%
<b>Moderate</b>	3	5.9%	13,959	5.4%	5,899	5.7%	3,533	5.2%	6,059	5.7%
<b>Middle</b>	30	58.8%	150,099	57.8%	61,438	59.3%	37,878	55.8%	63,019	59.4%
<b>Upper</b>	18	35.3%	95,580	36.8%	36,314	35.0%	26,502	39.0%	37,012	34.9%
<b>Total</b>	51	100.0%	259,638	100.0%	103,651	100.0%	67,913	100.0%	106,090	100.0%

Source: 2000 U.S. Census Data, 2003 MSA Designations

#### 2004 Assessment Area Demographics

Census Tract Income Level	Census Tracts in Assessment Area		Total Population		Total Households		Total Families		Total Housing Units	
	#	%	#	%	#	%	#	%	#	%
<b>Moderate</b>	7	13.7%	30,210	11.6%	12,584	12.1%	7,471	11.0%	13,039	12.3%
<b>Middle</b>	30	58.8%	156,588	60.3%	63,677	61.4%	40,318	59.4%	65,137	61.4%
<b>Upper</b>	14	27.5%	72,840	28.1%	27,390	26.5%	20,124	29.6%	27,914	26.3%
<b>Total</b>	51	100.0%	259,638	100.0%	103,651	100.0%	67,913	100.0%	106,090	100.0%

Source: 2000 U.S. Census Data, 2004 MSA Designations

## DESCRIPTION OF ASSESSMENT AREA (CONTINUED)

The seven moderate-income census tracts (2004) are located in the cities of Medford and Woburn, and account for a small percentage of the assessment area's total population (11.6 percent). Woburn's two moderate-income tracts represent 19.9 percent of the city's total population; whereas Medford's five moderate-income tracts account for a more significant percentage of the respective city's total population at 40.9 percent.

Based on 2000 Census data, the area contains 106,090 housing units, of which 65.4 percent are owner-occupied, and 32.3 percent are rentals with a nominal vacancy ratio of 2.3 percent. The median age of housing stock is 51 years; the median housing value is \$294,314; and the monthly median gross rent is \$891. There are 103,651 households, of which 19.9 percent are low-income; 13.5 percent are moderate-income; 18.2 percent are middle-income; and, 48.4 percent are upper-income. Households with incomes below the poverty level constitute 5.2 percent of total households, and 1.4 percent of households receive public assistance. Median family income within the assessment area is \$81,713, which surpasses the average of the state of Massachusetts by 24.6 percent.

As demonstrated below, small businesses are heavily represented within the assessment area's middle-income census tracts. Opportunity for lending to small businesses within moderate-income census tracts is limited, as a small percentage (4.5 percent) of small businesses are located within these geographies.

<b>Winchester Savings Bank Assessment Area: Small Businesses by Geography (2003)*</b>				
<b>Census Tract Income Level</b>	<b>Number of Businesses</b>	<b>% of Businesses</b>	<b>Number of Small Businesses</b>	<b>% of Small Businesses</b>
<b>Moderate-Income</b>	866	5.3%	484	4.5%
<b>Middle-Income</b>	9,391	57.1%	6,005	56.4%
<b>Upper-Income</b>	6,188	37.6%	4,152	39.1%
<b>Totals</b>	16,445	100.0%	10,641	100.0%

Source: 2003 D & B

\*Aggregate small business lending data within the assessment area

### **Assessment Area Economic Profile**

Home prices within the assessment area have increased drastically between the 1990 and 2000 Census periods. During this time, the median housing value has increased from \$205,612 to \$294,314, representing a total increase of 43.1 percent. According to The Warren Group, median home sales prices within the assessment area's cities and towns ranged from \$325,000 in Woburn to \$579,750 in Winchester during 2003 compared to \$355,000 in Stoneham and \$615,000 in Lexington for 2004. This specific range of prices represents a trend of significant appreciation that is commensurate with real estate values in other areas of eastern Massachusetts. The ranges of median home sales prices in the eight cities and towns within the assessment area during the



## **DESCRIPTION OF ASSESSMENT AREA (CONTINUED)**

review period represent appreciation between 0.6 percent in Melrose and 12.3 percent in Woburn.

As previously mentioned, the population of the institution's assessment area is 259,638 (2000 Census data), which shows a slight decrease in population since the 1990 U.S. Census (0.3 percent). Median family income ("MFI") for the Boston, MA-NH MSA (based on 2003 MSA designations and 1990 Census data) was \$48,688. The MFI of the Cambridge-Framingham-Newton, MA Metropolitan Division ("MD") (2004 MSA designations/2000 Census data) is \$78,983, representing an overall difference of 62.2 percent, subsequent to the MSA designation changes initiated by the Office of Management and Budget in 2003.

Based on 2000 Census data, the average unemployment rate for the assessment area is 2.6 percent, which is below both the Massachusetts and United States averages of 3.0 percent and 3.7 percent, respectively.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

### LENDING TEST

The institution's performance under the Lending Test was rated an overall "Satisfactory." The institution's lending efforts are rated under the seven performance criteria: Lending Activity, Geographic Distribution, Borrower Characteristics, Community Development Lending, Innovative or Flexible Lending Practices, Fair Lending, and Loss of Affordable Housing. The following information details the data compiled and reviewed, as well as conclusions on the Bank's performance.

#### Scope of Evaluation

The lending test evaluates an institution's record of helping to meet the credit needs of its assessment area based on an analysis of its residential mortgage, small business, and community development loans. Residential mortgage and small business loans originated during 2003 and 2004 were included in the Bank's performance.

The data used to evaluate the Bank's lending was derived from the Home Mortgage Disclosure Act/Loan Application Register ("HMDA/LAR") and the Bank's CRA Disclosure Statement.

#### I. Lending Activity

As of December 31, 2004, Winchester Savings Bank had assets totaling approximately \$463,649,000, as reported in the quarterly Federal Financial Institution Examination Council ("FFIEC") Call Report. Over the last eight quarters, the Bank's assets have increased by \$20,095,000 or 4.5 percent. During the same time period, net loans increased by \$10,606,000 or 4.3 percent and total deposits increased by \$32,178,000 or 8.9 percent.

As previously mentioned, residential lending activity accounts for the substantial majority of total lending activity; therefore emphasis within this assessment is placed on the performance of residential lending. Winchester Savings Bank's total home mortgage lending activity decreased from \$84.0 million in 2003 to \$51.1 million in 2004, representing a total dollar volume reduction of 39.3 percent. This significant reduction in home mortgage lending activity can be attributed to the rising interest-rate environment and the previously mentioned competitive environment in which the Bank operates.

In contrast to residential mortgage lending activity, the institution's small business lending activity increased from 16 loans in 2003 to 45 loans in 2004, representing an overall increase of 181.3 percent during the evaluation period. Total dollar volume of small business lending activity nearly tripled from 2003 to 2004.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### LENDING TEST (CONTINUED)

#### Lending Within the Assessment Area

An adequate percentage of home mortgage and small business loans were originated within the institution's designated assessment area during the evaluation period. Overall, 63.9 percent by count, and 54.8 percent by dollar volume of the Bank's loans were made within the assessment area. Refer to the following table for more information.

Distribution of Loans Inside and Outside the Assessment Area (2003 & 2004)										
Loan Category or Type	Number of Loans					Dollar Amount of Loans (000s)				
	Inside Assessment Area		Outside Assessment Area		Total	Inside Assessment Area		Outside Assessment Area		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage 2003 2004										
	276	69.7%	120	30.3%	396	52,791	62.8%	31,223	37.2%	84,014
	81	54.0%	69	46.0%	150	24,204	47.4%	26,896	52.6%	51,100
Subtotal	357	65.4%	189	34.6%	546	76,995	57.0%	58,119	43.0%	135,114
Small Business 2003 2004										
	16	57.1%	12	42.9%	28	2,461	41.5%	3,470	58.5%	5,931
	45	56.3%	35	43.8%	80	7,308	42.3%	9,983	57.7%	17,291
Subtotal	61	56.5%	47	43.5%	108	9,769	42.1%	13,453	57.9%	23,222
Total	418	63.9%	236	36.1%	654	86,764	54.8%	71,572	45.2%	158,336

Source: 2003 & 2004 HMDA and Small Business LARs

## II. Geographic Distribution

Overall, the geographic distribution of loans reflects an adequate level of penetration throughout the institution's designated assessment area. The assessment area contains no low-income census tracts; therefore performance under this criterion is based solely upon the institution's performance within the area's three moderate-income census tracts during 2003 and seven moderate-income census tracts during 2004.

The Office of Budget and Management MSA designation changes that took place in 2004 altered the demographic composition of the institution's assessment area. Most significantly, four moderate-income tracts were added, whereas the number of upper-income census tracts was decreased by four. Therefore, opportunity for lending within moderate-income census tracts increased between 2003 and 2004.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### LENDING TEST (CONTINUED)

#### HMDA Loans

Winchester Savings Bank demonstrates an improving trend of lending to borrowers within moderate-income geographies throughout the evaluation period. The Bank extended 0.7 percent and 6.2 percent of loans within the area's moderate-income census tracts in 2003 and 2004, respectively.

As the volume of lending activity within moderate-income census tracts constitutes only two percent of residential mortgage lending, consideration is also given to the institution's performance within middle-income geographies. The institution's performance of lending to individuals within middle-income geographies has also improved between 2003 and 2004, as the percentage of loans made within middle-income census tracts increased from 44.2 percent in 2003 to 61.7 percent in 2004.

Distribution of HMDA Loans by Income Category of Census Tract - Count Totals*						
Census Tract Income Level	% of Assessment Area Owner-Occupied Housing Units**	Aggregate Lending Data (% of #)	2003		2004	
		2003	#	%	#	%
Moderate	8.7%	3.8%	2	0.7%	5	6.2%
Middle	59.8%	52.3%	12	44.2%	50	61.7%
Upper	31.5%	43.9%	15	55.1%	26	32.1%
Total	100.0%	100.0%	27	100.0%	81	100.0%

Source: 2003 & 2004 HMDA LARs

Owner-occupied housing units within moderate-income census tracts represent only 8.7 percent of total owner-occupied housing units within the assessment area, and a substantial majority of owner-occupied housing units are located within middle-income census tracts (59.8 percent). As mentioned previously, median housing value within MSA 15764 is \$294,314, and current median sales prices range from \$355,000 to \$615,000 in the assessment area's eight cities and towns. Therefore, the opportunity for residential mortgage lending within moderate-income census tracts is somewhat limited. As previously discussed within the assessment area description, there are no low-income census tracts located within the institution's designated assessment area.

Winchester Savings Bank did not deny any home mortgage loans on properties located in moderate-income census tracts during the evaluation period. Similarly, out of 178 loan applications for home mortgage loans on properties located in middle-income census tracts in 2003 and 2004, only two were denied, representing an overall denial rate of 1.1 percent. Combined, the denial rate within moderate- and middle-income census tracts for 2003 and 2004 is slightly below 1.1 percent, thus demonstrating the Bank's willingness to extend residential mortgage loans within these census tracts.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### LENDING TEST (CONTINUED)

#### Small Business Loans

Winchester Savings Bank did not originate any small business loans within the assessment area's moderate-income census tracts in 2003. As mentioned in the assessment area economic profile, the opportunity for extending loans to small businesses in moderate-income geographies was limited in 2003. However, the Bank improved its performance in 2004, originating eight small business loans (17.8 percent) within moderate-income geographies. The following table illustrates the Bank's dispersion of small business lending within moderate, middle, and upper-income geographies during the evaluation period:

Distribution of Small Business Loans by Income Category of Census Tract - 2003 & 2004*					
Census Tract Income Level	Aggregate Lending Data (% of #)**	2003		2004	
	2003	#	%	#	%
Moderate	15.7%	0	0.0%	8	17.8%
Middle	42.4%	13	81.3%	25	55.5%
Upper	39.1%	3	18.7%	12	26.7%
Subtotal	97.2%	16	100.0%	45	100.0%
Tract Unknown	2.8%				
Total	100.0%	16	100.0%	45	100.0%

Source: 2003 & 2004 Small Business LARs

### III. Borrower Characteristics

Winchester Savings Bank's overall distribution of loans demonstrates an adequate record among individuals and businesses of varying income levels. The institution's primary lending focus is home mortgages; therefore the most weight in determining borrower profile performance is activity within this category.

#### HMDA Loans

Winchester Savings Bank's record of residential mortgage lending reflects an adequate level of dispersion to borrowers of varying income levels; particularly to low and moderate-income individuals. The institution's record of granting home mortgage loans in 2003 to low-income individuals compares similarly with the aggregate lending data which shows 4.2 percent lent to low-income individuals. Furthermore, illustrating a positive trend, lending activity to low-income borrowers increased from 4.7 percent in 2003 to 7.4 percent in 2004.

When compared against aggregate mortgage performance, the Bank ranks 23<sup>rd</sup> in lending to low-income borrowers, and slightly lower (28<sup>th</sup>) in record of lending to moderate-income individuals. The top three performers in lending to low-income individuals are: Countrywide Home Loans, Washington Mutual Bank, and GMAC

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### LENDING TEST (CONTINUED)

Mortgage Corporation. The same three institutions also hold the top positions in record of lending to moderate-income individuals. The following table illustrates the institution's record of lending to individuals of different income levels as compared to aggregate lending data:

Distribution of HMDA Loans by Borrower Income - Count Totals* 2003 & 2004						
Borrower Income Level**	% of Assessment Area Households***	Aggregate Lending Data (% of \$)****	2003		2004	
		2003	#	%	#	%
Low	19.9%	4.2%	13	4.7%	6	7.4%
Moderate	13.5%	15.3%	46	16.7%	11	13.6%
Middle	18.2%	25.4%	65	23.6%	28	34.6%
Upper	48.4%	40.0%	14	53.3%	35	43.2%
Income Not Reported	0.0%	15.1%	5	1.7%	1	1.2%
Total	100.0%	100.0%	27	100.0%	81	100.0%
			6			

Source: 2003 & 2004 HMDA LAR

The institution demonstrates its willingness to serve low and moderate-income borrowers through its low denial rates within each income category in both 2003 and 2004. The Bank did not deny any loan applied for by a low-income borrower within the assessment area in either 2003 or 2004. Similarly, the Bank denied only 5.8 percent of loans applied for by moderate-income borrowers in 2003; and, denied no loan applications to moderate-income borrowers within the assessment area in 2004.

Based on 2000 Census data, the median housing value within the institution's assessment area is \$294,314. More recent data, however, shows median sales prices ranging from \$355,000 in Stoneham to \$615,000 in Lexington. MFI of Cambridge-Newton-Framingham, MA MD is \$78,983, therefore low and moderate-income borrowers, at 80 percent or less of MFI, make less than \$63,186; thus contributing to the difficult nature of sustaining a home mortgage loan within the area. Combined, these two factors demonstrate the lack of opportunity for extending loans to low and moderate-income individuals within the assessment area; and further emphasize the institution's adequate performance under the home mortgage borrower profile assessment.

### Small Business Loans

The distribution of small business loans reflects a good penetration among business customers of varying income levels, particularly to those businesses with gross annual revenues of \$1 million or less. As illustrated below, 93.8 percent in 2003, and 73.3 percent in 2004, of small business loans were granted to businesses whose gross annual revenues were less than \$1 million. Of the 16 small business loans made in 2003 and the 45 extended in 2004, 50.0 percent and 60.0 percent, respectively, were

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### LENDING TEST (CONTINUED)

made for amounts less than \$100,000; thus contributing to the institution's good distribution of loans to businesses of different revenue sizes. Refer to the following table for more information.

Distribution of Small Business Loans by Revenues - Count Totals*					
Business Gross Annual Revenue (000s)	Aggregate Lending Data (% of #)**	2003		2004	
	2003	#	%	#	%
≤ \$1,000	32.3%	15	93.8%	33	73.4%
> \$1,000	67.7%	1	6.2%	10	22.2%
Income not Reported	0.0%	0	0.0%	2	4.4%
Total	100.0%	16	100.0%	45	100.0%

2003 & 2004 Small Business LARs

#### IV. Community Development Lending

The institution's community development lending activities are evaluated pursuant to the following criteria: 1) the extent to which community development lending opportunities have been made available to the institution; 2) the responsiveness of the institution's community development lending; and 3) the extent of leadership the institution has demonstrated in community development lending.

A community development loan is a loan that:

- 1) Has as its primary purpose community development; and
- 2) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multi-family dwelling loan; and
- 3) Benefits the bank's assessment area or a broader statewide or regional area that includes the bank's assessment area.

Winchester Savings Bank's current performance under the community development lending criterion of the Lending Test is considered adequate. A review of the current evaluation period identified two loans for a total commitment of \$670,000. The following information describes the institution's community development activity during the evaluation period:

- In September of 2004, Winchester Savings Bank originated a \$300,000 line of credit to a local non-profit organization that provides community-based mental health services and living facilities to developmentally disabled individuals within the communities of Arlington, Woburn, and Burlington. The majority of the recipients of the program's services are low and moderate-income individuals.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### LENDING TEST (CONTINUED)

- In January 2003, Winchester Savings Bank participated in a loan with Winchester Co-operative Bank to a local community development organization. While the total loan amount was \$1,480,000, Winchester Savings Bank's total commitment was \$370,000. The organization provides four primary services: daycare for children ranging in age from 15 months to 6 years; parent education courses and individual advocacy; a food pantry that provides emergency food supplies to individuals and families. Each of these services specifically serves the needs of low and moderate-income individuals and families within the Bank's assessment area.

#### V. Innovative or Flexible Lending Practices

Winchester Savings Bank's innovative and flexible lending practices are evaluated pursuant to the following criteria:

- Degree to which lending activity serves low and moderate-income borrowers in innovative ways or assists groups of consumers not previously served by the institution; and,
- The success of each product in serving low and moderate-income borrowers, including the number and dollar volume of loans originated during the examination period.

Winchester Savings Bank makes adequate use of innovative and flexible lending practices. The institution offers several flexible loan programs; however, similar programs are made available by many other financial institutions. Total qualifying loans made throughout the evaluation period consisted of 66 loans for a total loan amount of \$20,600,540. Of these loans, Winchester Savings Bank extended a significant majority (95.5 percent) through its First-Time Homebuyer Program for a total commitment of \$19,941,985. Overall, innovative and flexible lending activity has decreased from the prior evaluation period volume of \$28,983,884 to the current evaluation period volume. This decrease in activity is primarily attributed to the significant appreciation in median home sales prices throughout the assessment area.

Four of the Bank's eight flexible loan programs specifically serve the unique credit needs of low and moderate-income borrowers. Although these programs are flexible, they are not considered innovative as they are available at many other financial institutions. However, the Bank has developed a "CRA Loan Program" that is limited to low and moderate-income borrowers within their assessment area. No applications have been taken through this program to date. Details of this program are provided below. The following provides a summary of the innovative and flexible lending programs offered by the institution:



## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### LENDING TEST (CONTINUED)

First-Time Homebuyer Program – 63 loans totaling \$19,941,985: loans offer an extended repayment period of up to 35 years. This program creates affordability by lowering the overall mortgage payment and removing the payment of points, appraisal and credit report fees. Relaxed underwriting standards are also offered through lenient qualifying income ratios. The program is not necessarily targeted toward low and moderate-income borrowers.

Reverse Equity Mortgage Loan Program – One loan totaling \$532,555: a loan originated in conjunction with Homeowner Options of Massachusetts Elders (HOME). The program allows elderly homeowners the use of their home equity to supplement their monthly incomes to support their living expenses. This program is specifically tailored to assist low and moderate-income individuals.

First-Time Homebuyer Loan Fund – One loan totaling \$76,000: a loan originated through a program designed by the Winchester Housing Corporation (“WHC”). WHC is a non-profit organization that assists low and moderate-income individuals with home purchases within the town of Winchester. The Bank has committed \$500,000 to fund these loans, and maintains the loans in the Bank’s portfolio. First-time homebuyer counseling courses are offered in association with this loan program. Loans offered through this program have a repayment period of up to 35 years, an interest rate that is 0.5 percent below current market rates, do not charge points or credit reporting fees, and underwriting standards are more flexible.

Capital Access Program (CAP) – One loan totaling \$50,000: a loan originated in conjunction with the Massachusetts Business Development Corporation (MBDC). The Capital Access Program offers small businesses an alternative in certain cases where marginal loans would have been denied in the past.

Municipal Mortgage Program – Although Winchester Savings Bank has not originated any loans through this program during the evaluation period, \$5,000,000 has been committed for involvement with this program. The Municipal Mortgage Program is offered in conjunction with the Massachusetts Housing Financing Agency which allows municipal workers to purchase a home within the community with no down-payment.

Soft Second Loan Program – This program, developed by the Massachusetts Housing Partnership Fund and Executive Office of Communities and Development, is designed to serve the unique credit needs of low-income individuals who are first-time homebuyers. Winchester Savings Bank’s participation in this program is in cooperation with the Winchester Housing Corporation, whose personnel have been trained in processing and underwriting procedures for this program. The Bank did not originate any loans through this program during the current evaluation period.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### LENDING TEST (CONTINUED)

Fannie Mae's New England 2-3 Unit Mortgage Experiment Program – This program allows the deduction of 75 percent of the rental income produced by the 2-3 unit property from the monthly mortgage payment; furthermore, the qualifying ratios will be based on the remaining portion of the payment. This program is considered to greatly improve a low to moderate-income borrower's ability to qualify for a residential mortgage loan.

CRA Loan Program – This program, developed by Winchester Savings Bank, utilizes a new benefit provided by the Mortgage Insurance Fund of MassHousing (MIF). The MIF has enhanced their present mortgage insurance coverage by adding a benefit that protects borrowers in the event they lose their job during the first ten years of the loan by absorbing up to six monthly payments of principal and interest. The CRA Loan Program is limited to low and moderate-income borrowers. The Bank developed this program in 2004, and has not originated any loans in this category during the current evaluation period.

In addition to the innovative and flexible loan programs utilized and offered by the institution, Winchester Savings Bank has offered flexible underwriting standards in response to the unique credit needs of the assessment area's affluent community. This responsiveness is demonstrated through the Bank's low overall denial rates of 1.0 percent in 2003 and 1.1 percent in 2004 within its designated assessment area.

#### **VI. Fair Lending Policies and Practices**

The Bank's fair lending policy and procedures are comprehensive in nature and address specific areas such as staff training, fair lending procedures, a loan application and an evaluation process as well as applicable rules and regulations regarding the Fair Housing Act, Equal Credit Opportunity Act, the Consumer Protection Act, and the Community Reinvestment Act.

All employees are provided with training appropriate to their job description and their responsibilities in fair lending issues. This includes information regarding both technical requirements that come into play, as well as the more substantive and subtle issues related to unintentional discrimination and quality of assistance.

#### **VII. Loss of Affordable Housing**

The Bank's participation in community development lending projects and government lending programs, along with its development of credit products with flexible lending criteria has assisted low and moderate-income individuals and small businesses to remain in their neighborhoods.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)**

### **LENDING TEST (CONTINUED)**

#### **CONCLUSION (Lending Test)**

Taking into account the number and amount of home mortgage and small business loans in its assessment area, Winchester Savings Bank has demonstrated adequate responsiveness to the assessment area's credit needs. The Bank's lending demonstrates an adequate distribution of loans among individuals of different income levels and is considered adequate for lending to businesses of different sizes. In addition, the Bank's fair lending performance was found to be adequate at this time. Therefore, the institution's lending performance receives an overall rating of "Satisfactory".

### **INVESTMENT TEST**

The investment test evaluates the Bank's record of helping to meet credit needs through qualified investments that benefit the assessment area or a broader statewide or regional area that includes the Bank's assessment area. A qualified investment is defined as a lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Community development purposes include 1) providing affordable housing for low or moderate-income individuals or areas, 2) providing community services targeting low or moderate-income individuals or areas, 3) promoting economic development by financing small businesses, or 4) revitalizing or stabilizing low or moderate-income geographies. Investment performance is evaluated based on the level, innovativeness or complexity, and degree of responsiveness to community needs.

The universe of investments evaluated under this test is comprised of investments and charitable donations within the institution's designated assessment area made throughout the evaluation period between January 1, 2003 and March 31, 2005. As several of the institution's investments benefit a broader statewide or regional area that includes the actual assessment area, consideration is given to the aggregate amount; however, emphasis is placed on investments that directly benefit the designated assessment area.

Although Winchester Savings Bank's record of making charitable contributions to community development organizations has improved since the prior examination and throughout the current evaluation period, the institution has demonstrated a weakening trend in regards to making qualified investments. The following sections outline the Bank's performance with regard to equity investments and charitable donations with community development as their purpose.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### INVESTMENT TEST (CONTINUED)

#### **Equity Investments**

Throughout the evaluation period, Winchester Savings Bank extended a total of \$1,948,371 of community development investments that benefit a broader regional area (Middlesex County) that includes the assessment area. Of these investments, \$1,134,830 (58.2 percent) directly benefits areas within its designated assessment area.

In addition to the investments made during the evaluation period, the Bank maintains three additional investments on its books for a total dollar investment of \$409,435. The aggregate amount of qualified investments considered under this evaluation is \$2,435,049. The following provides an outline of the investments made during the evaluation period:

- Fleet CRA Pool – Winchester Savings Bank purchased a pool of six mortgages made to low to moderate-income individuals within Middlesex County for a total dollar investment of \$1,200,391. Of these six mortgages, two loans, or \$386,850 of the total investment are located within the institution's assessment area.
- Fannie Mae CRA-Targeted Mortgage Backed Security (MBS) – Winchester Savings Bank purchased a pool of two loans made to low and moderate-income borrowers for an investment of \$302,365. Both of these properties are located within the designated assessment area.
- Fannie Mae CRA-Targeted MBS – Winchester Savings Bank purchased a pool of two mortgages extended to low and moderate-income individuals for a total investment of \$445,615. Both of these properties are located within the institution's assessment area.

The three mortgage-backed securities purchased during the evaluation period represent 1.2 percent of the institution's total securities portfolio as of December 31, 2004. The additional three qualified equity investments reported by the institution account for .24 percent of the securities portfolio. When considered in the aggregate, community development investments constitute 1.4 percent of the overall securities portfolio.

#### **Charitable Donations**

During the review period, the institution made \$77,183 worth of charitable donations to community development organizations, and has committed an additional \$43,616 for calendar year 2005. The yearly breakdown of donations is as follows: \$35,017 in 2003 and \$42,166 in 2004, thus representing a total dollar increase of 20.4 percent throughout the evaluation period. These donations represent 0.8 percent and 1.0 percent of pre-tax net operating income in 2003 and 2004, respectively; thus further demonstrating the Bank's improving trend of making charitable donations. The following provides an outline of a portion of the organizations to which the Bank extended charitable donations during the evaluation period:

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### INVESTMENT TEST (CONTINUED)

- Caritas Communities – This organization provides single-room occupancy housing for low-income, employed individuals. Caritas is one of the largest non-profit managers of affordable lodging houses in the Greater Boston area.
- Woburn Council of Social Concern – This organization supports the needs of low and moderate-income individuals by providing daycare, parenting education, and emergency food assistance.
- Winchester: A Better Chance (ABC) Program – Through this program, low and moderate-income teenagers from inner-city areas are provided housing in Winchester, thus enabling them to obtain a higher-quality education at Winchester High School.
- Winchester Hospital Foundation – The purpose of the foundation is to provide subsidy of the provision of low- to no-cost healthcare to low and moderate-income individuals.

### CONCLUSION - Investment Test

Overall, the Bank has made an adequate level of qualified community development investments. Given the Bank's size and capacity, the Bank has exhibited adequate responsiveness to credit and community economic development needs. Therefore, based on the above factors, the Bank's investment performance receives a rating of "Satisfactory".

### SERVICE TEST

The institution's performance under the Service Test was rated an overall "Satisfactory." This rating is based upon an evaluation of the availability and effectiveness of an institution's systems for delivering retail banking services and the extent and innovativeness of its community development services.

### RETAIL BANKING SERVICES

#### Accessibility of Delivery Systems

Winchester Savings Bank's retail delivery systems are accessible to all portions of its designated assessment area. The Bank operates four full-service branches, of which one is located in a moderate-income census tract, one is located in a middle-income census tract, and two are located within upper-income census tracts. The Bank also operates a limited-service branch located at Winchester High School.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)**

### **SERVICE TEST (CONTINUED)**

#### **Changes in Branch Locations**

Since the previous examination, Winchester Savings Bank has not opened, closed, or relocated any branches. However, the 2004 MSA designation changes initiated by the Office of Budget and Management altered the demographic composition of the assessment area; and furthermore, changed the income-level of census tracts where a portion of the branches are located. Most significantly, one of the branches previously located in a middle-income census tract in Woburn, based on 2004 MSA designations, is now located within a moderate-income census tract.

#### **Alternative Delivery Systems**

Winchester Savings Bank operates five ATMs throughout its designated assessment area. Each of the full-service branch locations also offers ATM access, and the fifth ATM is located at Winchester Hospital. Therefore, the ATM distribution throughout the assessment area is considered consistent and reasonable.

The institution operates a 24-hour-a-day telephone banking service which allows account inquiries for deposit and loan accounts, as well as transfer capabilities for deposit accounts. Customers and non-customers may also take advantage of the Bank's "Rate Line" which offers current rate information for deposit and loan products.

Winchester Savings Bank maintains an Internet website that offers a wide variety of online banking capabilities. Such services include; inquiry, transfer, and transactional capabilities for loan and deposit accounts. The Bank's history, listing of corporators and management, branch locations, several financial tools and calculators, e-mail capabilities, and a listing of current community events are also included in the wide array of information available on the Bank's website.

#### **Reasonableness of Business Hours and Services**

The institution's branch locations, services, and business hours are tailored to the convenience and needs of its designated assessment area. Three of the full-service facilities offer drive-up teller services that are available to the Bank's customers at earlier times than regular business hours (7:30 A.M. to 9:00 A.M.). Business hours for each of the full-service branches range from 8:00 A.M. to 9:30 A.M., depending on the specific needs of the area. The Winchester High School branch is open on business/school days from 11:15 A.M. to 12:25 P.M..

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### SERVICE TEST (CONTINUED)

#### **Community Development Services**

The degree of involvement by Bank employees in community development programs and projects is very limited. A few of the institution's executives contribute their financial expertise for the benefit of local, non-profit, community development organizations.

The following outlines the various community development services in which employees and executives of the institution are involved:

- The President of Winchester Savings Bank co-chairs a campaign of an organization that supports the needs of low and moderate-income individuals through the provision of daycare, parenting education, and emergency food assistance.
- A Vice President of Winchester Savings Bank serves on the Financial Planning and Development Committee of the above-mentioned community development organization.
- A Vice President serves on the Fund Raising and Foundation Networking Committee of a community development organization that provides shelter for low-income individuals.
- A Vice President provided financial educational services to low and moderate-income children in an effort to raise awareness of enterprise, business, and economics.
- The Consumer Loan Manager assists a non-profit agency in its mission to support the rights of low and moderate-income elders by providing financial services to the individuals at no cost.
- A Senior Vice President serves on the charitable donations committee of a local community development service organization.

#### **Other Services**

The following are additional services offered by the Bank that help meet the needs of certain segments of the assessment area:

- *Basic Banking for Massachusetts*
- *Voluntary Government Check Cashing*
- *Savings Makes Cents*

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### SERVICE TEST (CONTINUED)

#### ➤ *First Time Homebuyer Seminars*

*Interest on Lawyers Trust Accounts ("IOLTA")* - Under an agreement with the Massachusetts Bar Association, interest paid on these accounts is used to provide legal assistance to low and moderate-income individuals in need of legal services. IOLTA funded programs of Massachusetts provide legal assistance to over 100,000 individuals across the state. IOLTA continues to be the primary source for consumer, family, education, disability, and elder law services for low-income clients.

### CONCLUSION (Service Test)

As depicted above, by providing financial expertise services, officers and employees of Winchester Savings Bank have demonstrated an adequate level of community development service activities. The Bank's products and alternative banking services are tailored to the convenience and needs of its assessment area including low and moderate-income individuals. Winchester Savings Bank's service activities receive a rating of "Satisfactory".



## **APPENDIX A**

### **SCOPE OF EXAMINATION**

Winchester Savings Bank assessment area includes all census tracts that comprise the eight cities and towns of; Arlington, Lexington, Medford, Melrose, Reading, Stoneham, Winchester, and Woburn.

All HMDA reportable loans recorded on the 2003 and 2004 Loan Application Registers were included in the evaluation of the Bank's lending performance. In addition, all loans recorded on the 2003 and 2004 Small Business Loan Register (as defined under the data collection requirements of the revised CRA regulation) were included in the evaluation of the Bank's lending performance.

Qualified investments were also reviewed. The Bank primarily participates in qualified investments through its participation in provision of grants directed at low and moderate-income individuals and areas.

In addition, the Bank's systems for delivering retail banking services and the provision of service activities primarily for community development purposes and related to the provision of financial services were considered.

This examination also included a review of the Bank's Public File, which contained no negative CRA-related comments.

## **PERFORMANCE EVALUATION DISCLOSURE GUIDE**

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at 661 Main Street, Winchester, MA 01890

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.